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**PHILLIPS PETROLEUM COMPANY
1972 ANNUAL REPORT**





HIGHLIGHTS

FINANCIAL	1972	1971
Total revenues	\$2,567,500,000	\$2,412,300,000
Net income	\$ 148,400,000	\$ 132,300,000
Per average share outstanding ...	\$ 1.98	\$ 1.78
Average shares outstanding	75,087,000	74,445,000
Dividends paid	\$ 97,600,000	\$ 96,800,000
Per share	\$ 1.30	\$ 1.30
Capital expenditures	\$ 264,700,000	\$ 225,000,000
Total assets at year-end	\$3,269,600,000	\$3,166,700,000

OPERATING*

Crude oil and natural gas liquids		
produced—net barrels daily	363,000	356,000
Crude oil refined—barrels daily	450,000	447,000
Petroleum products sold—barrels daily	733,000	724,000
Natural gas produced—net thousands		
of cubic feet daily	1,853,000	1,844,000

*Includes operating results, in proportion to the Company's stock interests, of companies for which equity accounting is practiced.

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"Phillips," "the Company," "we," and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The Company's consolidation policy is to include in financial statements the accounts of companies in which more than 50% interest is held. Where so indicated, operating data in this report also include the activities, in proportion to the Company's stock interests, of companies for which equity accounting is practiced.

In addition to the Phillips 66 shield, Trop-Artic, Phillips 66, Phil-Ad, K-Resin, Ryton, Solprene, Quintess, Marvess, Loktuft, Reneer, Sixty-Six, Optrol, and Optichrom are registered trademarks for the Company's products named in this report.

ABOUT THE COVER

Bright layers of a plastic laminate represent the earth's geologic strata probed in the search for petroleum energy. This cross section of a unique sculpture on display in the Phillips Exhibit Hall in Bartlesville symbolizes the Company's thrust toward increasing its energy resources.

At left, a geophysical survey crew at work in advance of exploratory drilling in Peru's jungles illustrates one aspect of our search for additional petroleum reserves. Phillips has contracted to explore a 2.6 million-acre area in Peru in the vicinity of several significant oil discoveries.

TO THE STOCKHOLDERS

Your Company's 1972 earnings were \$148,400,000 or \$1.98 a share. This was an increase of 12% over 1971 earnings of \$132,300,000 or \$1.78 a share.

Total revenues in 1972 were \$2,567,500,000, an increase of 6% over 1971 revenues. Earnings were equal to 5.8 cents for each dollar of revenue.

There was a small increase in our worldwide production of crude oil and natural gas liquids. Rising crude oil production in the Norwegian North Sea more than offset declines in oil production in Egypt and Iran. U. S. oil production was about equal to that of 1971. Natural gas revenue rose to a new high. Sales volumes of petroleum products and chemicals increased. Firming of petroleum products prices began in the last half of the year and continued. Earnings in 1972 also benefited from sustained emphasis on improving efficiency. Increases in costs for labor and materials and a decline in tanker revenue partially offset the favorable factors.

The Company's return on total assets in 1972 was 4.6%. Although this was an improvement for the second consecutive year, it was too low. Some segments of our fibers, fertilizer, and petroleum product operations are not producing desired results. These segments will continue to receive close attention. We are committed to a program to increase the Company's return to a more acceptable level even though the asset base is increasing and rises in wages and other costs may not be offset by compensating increases in product prices.

Developments in 1972

The year 1972 was marked by developments favorable to a greater rate of return. The most notable of these also advanced the Company's objective of increasing its reserves and production of oil and gas.

In the Ekofisk area of the North Sea, the Phillips Group discovered another oil and gas field and confirmed two previously discovered oil and gas fields. Four additional oil

and gas fields were discovered on one-third interest Nigerian concessions. A third oil field was found on one-sixth interest acreage in Iranian waters. Oil discoveries were made in Utah and Oklahoma.

Phase I of our Norwegian North Sea development, including facilities to produce an average of 42,000 barrels of oil a day from the Ekofisk Field, was completed. Construction continued on Phase II, to be completed in 1974. It includes development drilling and facilities to handle production of 300,000 barrels of oil a day from the Ekofisk Field. Engineering work proceeded on Phase III. It involves developing and tying in three other fields and is scheduled for completion in 1975. We estimate the facilities then will be handling approximately 500,000 barrels of crude oil per day plus a large volume of natural gas liquids.

An agreement was reached for sale beginning in 1975 of at least six trillion cubic feet of natural gas over a 20-year period from fields in the Ekofisk area.

In Nigeria, development of several large oil and gas fields was carried on and work continued on pipeline and terminal facilities. Upon completion of these facilities in the first half of 1973, Nigerian oil production will be more than doubled to an estimated 40,000 barrels a day net to Phillips.

In the United States, we developed newly found oil reserves in Oklahoma and in waters off the Louisiana coast, and gas condensate reserves in Alabama.

Our objective of achieving greater profitability from our petroleum product marketing led to a decision to withdraw from northeastern U. S. gasoline and distillate markets, which have not been profitable. We are implementing various methods, such as more self-service units, to adjust most profitably to changing domestic gasoline marketing conditions.

Outlook for 1973

We expect the Company's earnings to increase in 1973. Costs for labor and raw materials will be higher. As we step up exploration to increase our crude oil and gas resources and

develop new production, greater charges against earnings will be incurred. Natural gas revenue will be higher. With rising petroleum product demand and tighter supplies, petroleum product prices should continue to improve. We expect generally higher sales volumes and stronger prices for our chemicals.

We will continue to give special attention to improving planning, organization, and manpower utilization, and taking other steps to cut costs.

The Energy Crisis

Our nation is entering an energy crisis which could cripple our economy, undermine our security, and lower our nation's living standards. Such consequences surfaced during America's hard 1972-73 winter, when demands exceeded supplies. Some industries were forced into brief closure periods when suppliers curtailed energy deliveries to them in order to supply high-priority consumers such as residences and hospitals.

The petroleum industry responded to this situation with extraordinary measures to alleviate shortages. Phillips took steps to obtain additional crude oil and adjusted its operations to produce more heating oils, even though the result was a penalty to earnings.

The U. S. Department of the Interior forecasts that America's energy use will nearly double by 1985. Oil and gas must meet about 70% of this demand. Because of environmental, technological, and economic problems, other existing and potential energy sources are estimated to supply no more than 30% of our needs before 1985.

Petroleum imports are rising and are expected to supply about 35% of total U. S. petroleum demand in 1973. By 1985 we shall probably rely on imports, mainly from the Middle East and Africa, for more than half of U. S. demand. If these sources were interrupted or cut off for even a

moderate time, dire consequences to our economy and way of life could result.

The nation faces a shortage of refining capacity. We expect chronic gasoline shortages next summer, following production of extra heating oils last winter instead of building gasoline inventories for the summer. Investment in new refinery capacity is discouraged by low product price margins and rising costs, which prevent an adequate return on investment. Refining capacity, aimed at U. S. product markets, is being built outside the United States. This is costly in terms of employment and the adverse effect on balance of payments. Moreover, without adequate domestic refining capacity, the nation would be dangerously dependent upon product imports.

For the critical years ahead the industry's principal efforts and government policies must be directed toward greatly increasing domestic supplies of oil and gas as well as refining capacity.

Why A Shortage?

For many years substantial amounts of petroleum have been imported to supplement domestic production and thus allow a reserve producing capacity for emergencies. That reserve has been diminished and today there is no spare domestic producing capacity to speak of.

The prospects for natural gas are even bleaker. Since 1968, annual production of natural gas in the U. S. has exceeded net additions to reserves by substantial amounts. Today there is a shortage of natural gas.

Federal regulation of producers' natural gas prices, beginning in 1954, is one of the principal causes of the overall energy shortage. By depressing natural gas prices, such regulation distorted the total price structure of other forms of energy and stifled their discovery and development. The impact is indicated

by the fact that U. S. exploratory oil and gas wells drilled declined from 16,200 in 1956 to 7,550 in 1972. Also contributing to this decline were the greater costs of finding new and deeper reserves, and the 1969 Tax Reform Act which reduced the percentage depletion allowance and thus deprived the U. S. petroleum industry of large amounts of capital.

Energy and Environment

Environmental action groups, although no doubt motivated by laudable intentions, have blocked vital steps to solution of the energy crisis. Examples are halting of the Trans-Alaskan pipeline, slowing down Federal oil and gas lease sales, preventing exploration in the Atlantic Ocean, and foreclosing new refinery and terminal sites.

The Federal standards on automobile emissions, which take full effect in the 1976 car model year, are far more severe than necessary to protect health and achieve desirable air quality. They therefore will cause waste of large amounts of crude oil and unnecessary costs to consumers. Changes in these standards can come about only by action of Congress to revise the Clean Air Act Amendments of 1970. With dividend checks for March 1, 1973, stockholders received a pamphlet which recommended an alternative, practical approach to automobile emissions. Additional copies of this pamphlet are available upon request to the Secretary, Phillips Petroleum Company, Bartlesville, Oklahoma 74004.

Present pollution restrictions on fuel usage make no provision for fuel users to switch temporarily to plentiful, but less desirable fuels, during emergency periods. This should be corrected.

What Is Needed

There is urgent need for a unified national energy policy to help solve the energy crisis. Several principles should form the basis of this policy. They include:

1. Emphasizing development of secure sources of energy supplies so as to avoid undue foreign control over the nation's foreign and domestic

policies, its balance of payments, and its economic conditions.

2. Meeting energy needs to the fullest extent from the vast domestic sources which remain to be tapped.

3. Recognizing that vast amounts of private capital must be invested to tap these sources and provide processing facilities, and that obtaining this capital will require greater incentives, including higher prices for petroleum raw materials and products.

4. Placing reliance for energy requirements on the private enterprise system, with all forms of energy competing in the marketplace. This calls for legislation to decontrol producers' natural gas prices.

5. Maintaining secure capacity in the United States to process and transport required energy materials.

6. Establishing a balance among the nation's energy, economic, and environmental needs.

We gratefully acknowledge the support of stockholders, loyalty of customers, and efforts and abilities of employees. These were important factors in the Company's 1972 achievements and we rely on them for future progress.

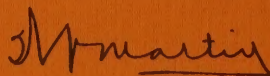
For the Board of Directors,



Chairman
(and Chief Executive
Officer during 1972)*



Deputy Chairman and
Deputy Chief Executive Officer*



President*

*Mr. Keeler will attain mandatory retirement age April 1, 1973. On that date Mr. Houchin will become Chairman. Mr. Martin became Chief Executive Officer January 1, 1973.

March 20, 1973

Financial review

Total 1972 revenues of \$2,567,500,000 consisted of gross operating revenues, \$2,512,700,000, and other revenues, \$54,800,000. Sources of gross operating revenues were as follows, stated in millions of dollars:

	1972	1971
Petroleum products.....	\$1,233.7	\$1,188.2
Chemicals, fibers, and fabricated products.....	589.6	495.0
Crude oil.....	327.2	320.8
Natural gas (including helium)	180.4	169.3
Other sales and services.....	181.8	189.9

Revenues from operations outside the United States were \$412,600,000 or 16% of total revenues in 1972 compared with \$420,600,000 or 17% of total revenues in 1971.

Capital expenditures were \$264,700,000 distributed as follows: exploration and production 74%, manufacturing 18%, marketing 2%, transportation and other assets 6%. Capital expenditures in 1971 were \$225,000,000.

Investments made in 1972 in securities of companies owned 50% or less totaled \$6,200,000 compared with \$23,200,000 in 1971.

Assets at year-end totaled \$3,269,600,000, an increase of \$102,900,000 during the year.

At December 31, 1972, the Company's long-term debt totaled \$791,800,000, which was \$8,400,000 less than a year earlier.

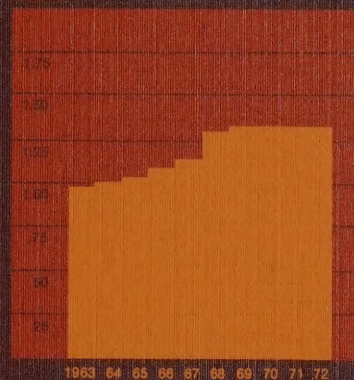
Direct Federal, state, and other taxes for 1972 totaled \$128,000,000. That was equivalent to five cents per dollar of total revenues, and to \$1.71 a share compared with \$1.30 a share paid in dividends to Phillips stockholders in 1972. An additional \$297,000,000 in taxes was collected for city, state, and Federal governments on the sale of products, primarily gasoline.

Additional financial information as well as 10-year operating data, is presented on pages 19-26.

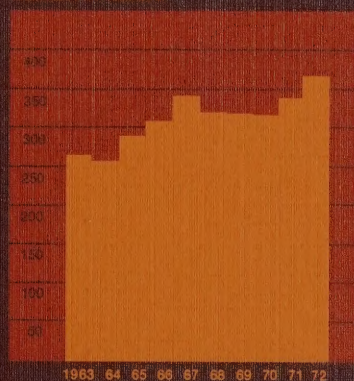
NET INCOME †
millions of dollars



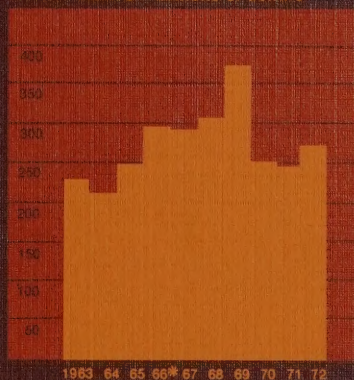
DIVIDENDS PER SHARE ‡
dollars



FUNDS FROM OPERATIONS †
millions of dollars



CAPITAL EXPENDITURES AND INVESTMENTS—millions of dollars



† Data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption in 1971 of equity accounting for investments.

‡ Adjusted for two-for-one stock split in 1969.

* Excludes \$308,600,000 for Western U.S. Manufacturing and Marketing properties.

operating review

EXPLORATION AND DEVELOPMENT

The Company's oil and gas production potential was strengthened in 1972. An important new oil and gas field was discovered and two others confirmed in the Ekofisk area of the North Sea. Four oil and gas fields were found in Nigeria and one oil field in Iranian waters. In the United States, net exploratory wells drilled increased 76% and development wells drilled increased 23% over 1971. The Company discovered oil in Utah and Oklahoma, and gas and condensate in the Gulf of Mexico. Recently discovered oil and gas-condensate fields were developed in Oklahoma and Alabama.

PRINCIPAL DISCOVERIES, FIELD EXTENSIONS, AND DEVELOPMENT DRILLING

UNITED STATES

GULF OF MEXICO—Phillips and its partners nearly completed exploration of nine Federal tracts acquired in 1970 in waters off the Louisiana coast, drilling 23 wells. Preparations were made to develop two tracts where gas and condensate were found. Seven oil wells in which Phillips holds half interest extended our Block 20 Field production in Breton Sound, Louisiana.

SOUTH CENTRAL OKLAHOMA—Drilling of nine oil wells completed development of our properties in the Northwest Norge Field. Fifteen miles east a full-interest discovery well tested 358 barrels of oil per day on a 12,500 net acre prospect, and a confirmation well was completed.

WESTERN ALABAMA—We continued to develop gas-condensate reserves in our 6,500 net acre block in Washington County, Alabama. Production will begin when a sulfur extraction plant is completed in late 1973.

NORTHEAST UTAH—Phillips and its partners completed a discovery oil well four miles southwest of the large Altamont Field. The well flowed 550 barrels of oil per day on a test of its potential. Five miles south of this discovery, a Phillips well offsetting a previous discovery flowed 1,640 barrels of oil per day. The Company holds 11,000 net acres in the vicinity of these wells.

OUTSIDE UNITED STATES

NORWEGIAN NORTH SEA—A fifth oil field, Edda, was discovered by Phillips and its partners. Two previously discovered fields, Tor and Eldfisk, also were confirmed by additional drilling. All three fields are on 37% interest acreage and are within 11 miles of the giant Ekofisk Field. Production tests indicate that each well in the three fields will be capable of producing several thousand barrels of oil per day after permanent producing facilities are installed. When developed, the three fields will be tied into the Ekofisk permanent production system now under construction.

An oil discovery which the Phillips Group supported for information purposes was made by another company on adjoining acreage. The well is only 480 feet west of our group's acreage and 10 miles from the Ekofisk Field. The Phillips Group plans to drill on its portion of the newly discovered structure in 1973.

UNITED KINGDOM NORTH SEA—A second oil well drilled on the Josephine structure 25 miles west of the Ekofisk Field flowed oil at the rate of 1,660 barrels daily. The well is not considered commercial at this rate but its productive zone added a potential pay for this acreage, in which Phillips has 35% interest. Further drilling will evaluate the large, geologically complicated structure.

NIGERIA—An intensive drilling program was carried on to develop several large oil and gas fields on Nigerian concessions in which Phillips holds one-third interest. Four other oil and gas fields were found on this acreage in 1972. Although not fully tested by year-end, they appear to be significant discoveries.

IRAN—A third oil field, Alpha, was discovered by Phillips and partners in Iranian waters, where the Company holds one-sixth interest in four blocks totaling 1.5 million acres. The discovery well flowed oil at a daily rate of 1,800 barrels. We have part interest in extensive acreage onshore Iran where exploratory drilling was conducted during the year.

NET OIL AND GAS ACREAGE AT YEAR-END

UNITED STATES	
Total.....	5,793,000
Developed.....	1,106,000
OUTSIDE UNITED STATES*	
Canada.....	6,967,000
Latin America.....	3,311,000
Europe.....	1,267,000
Africa.....	13,816,000
Middle East.....	2,893,000
Southeast Asia.....	31,018,000
Australia.....	5,969,000
Total, outside U. S.....	65,241,000
Developed, outside U. S.....	270,000

*Includes acreage of 49% owned Pacific Petroleum Ltd. in proportion to the Company's stock interest.

■ **New Acreage Acquired**—In the United States, we acquired acreage in Federal waters in the Gulf of Mexico off Louisiana; the Smackover Trend of Florida and Alabama; the Matador Arch of Texas and New Mexico; the Anadarko Basin of Texas and Oklahoma; the Powder River Basin of Wyoming; and the upper Cook Inlet of Alaska.

We acquired exploration rights in northeastern British Columbia, Canada, a region of promising gas potential. We plan to conduct exploratory drilling there in 1973. We added to our acreage holdings in Alberta, the Arctic Islands, and the Mackenzie Delta. An exploratory drilling project was started on the Mackenzie Delta acreage. Directly, and through its 49% interest in Pacific Petroleum Ltd., the operator, Phillips holds a total of 52% interest in this project.

We contracted to explore 2.6 million acres in Peru. We relinquished portions of our acreage in Saudi Arabia and Indonesia after exploratory evaluation.

■ **Expenditures Higher**—Reflecting greater emphasis on increasing our oil and gas reserves, capital and exploration expenditures to acquire, find, and develop reserves were \$218,400,000, compared with \$149,000,000 in 1971.

DRILLING STATISTICS	Exploratory		Development	
	1972	1971	1972	1971
UNITED STATES				
Gross wells.....	66	39	342	262
Net wells.....	37	21	86	70
Oil.....	4	2	57	45
Gas and gas condensate.....	1	1	16	12
Dry holes.....	32	18	13	13
OUTSIDE UNITED STATES (net wells)*				
Canada.....	25	14	34	21
Latin America.....	1	2	—	11
Europe.....	3	1	—	—
Africa.....	5	5	4	6
Middle East.....	2	3	1	1
Southeast Asia.....	1	5	—	—
Total.....	37	30	39	39
Oil.....	6	2	28	29
Gas and gas condensate.....	4	4	7	8
Dry holes.....	27	24	4	2

*Includes drilling by 49% owned Pacific Petroleum Ltd. in proportion to the Company's stock interest.

PRODUCTION OF CRUDE OIL AND NATURAL GAS LIQUIDS

Average worldwide net production of crude oil and natural gas liquids increased 2% to 363,100 barrels a day. A rise in crude oil production from the North Sea more than offset small declines in Egypt and Iran. Natural gas liquids output increased.

LIQUID RAW MATERIALS PRODUCED	Net Barrels Daily*	
	1972	1971
UNITED STATES		
Crude oil.....	130,200	130,100
Natural gas liquids.....	137,400	135,400
Total U. S.....	267,600	265,500
OUTSIDE UNITED STATES		
Crude oil.....	81,000	75,100
Natural gas liquids.....	14,500	15,600
Total outside U. S.....	95,500	90,700
WORLDWIDE		
Crude oil.....	211,200	205,200
Natural gas liquids.....	151,900	151,000
Total worldwide.....	363,100	356,200

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more.

■ **Norway Production Progress**—Phase I of our Norway North Sea development was completed, with four wells in the 37% interest Ekofisk Field producing directly into tankers. A total of 12,100,000 barrels of Ekofisk oil was produced. Phillips delivered most of its share of this oil to a 50% owned affiliate's refinery at Billingham, England.

Construction of production facilities for Phase II continued. A 1,000,000 barrel reinforced concrete storage tank, three drilling platforms, and a producing platform were near completion at year-end. Completion of this phase, which includes drilling 30 wells in the Ekofisk Field, is

expected in late 1974. The facilities are designed to handle production of 300,000 barrels of oil per day.

Engineering work for Phase III proceeded. This phase, scheduled to be completed in 1975, consists of developing the Cod gas-condensate and the West Ekofisk and Tor oil and gas fields; tying them into central production facilities at Ekofisk; laying oil and gas pipelines to shore; and constructing onshore facilities. We have asked the Norwegian Government for permission to construct the oil pipeline to England. At this point the facilities will be handling an estimated 500,000 barrels of crude oil per day plus a large volume of natural gas liquids. A future phase will tie the new Eldfisk and Edda fields into Ekofisk facilities.

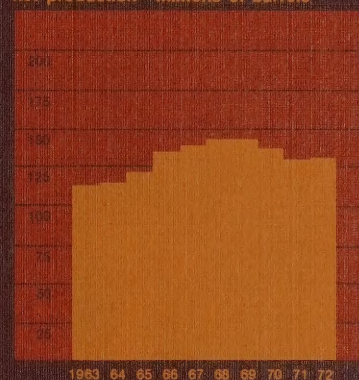
■ **Nigerian Production to Increase**—In Nigeria, production from three fields on one-third interest concessions was averaging 19,600 barrels of oil per day net to Phillips at year-end. Nigerian production is expected to more than double in 1973 after completion during the first six months of a new pipeline system and coastal terminal and more development wells.

■ **New Production, Increased Demand in U. S.**—Oil production from the new Northwest Norge Field in central Oklahoma and stepped-up production in Texas resulted in a slight increase in U. S. oil production.

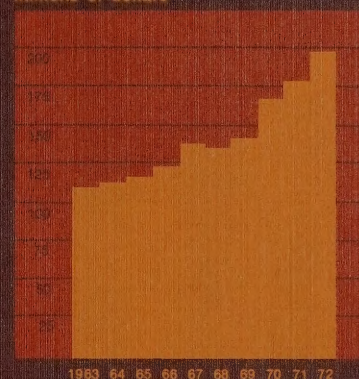
In Texas, oil production is regulated on the basis of market demand. Greater requirements for petroleum products resulted in an increase in the state's "allowable" factor to nearly 100% during 1972. Thus, the Company was allowed to produce previously restricted wells at an increased rate.

■ **North Slope Production Delayed**—The Company owns large oil and gas reserves in the Prudhoe Bay Field on the Alaskan North Slope. Construction of a pipeline to move

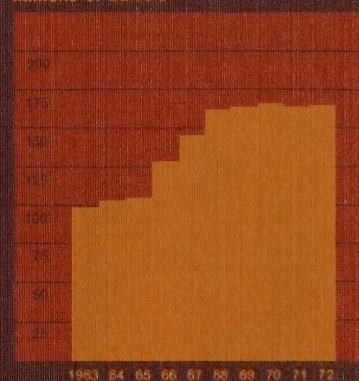
CRUDE OIL & NATURAL GAS LIQUIDS net production—millions of barrels



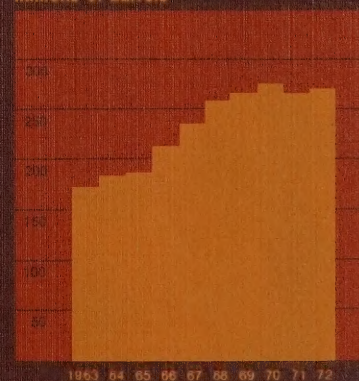
NATURAL GAS REVENUE millions of dollars



CRUDE OIL REFINED millions of barrels



PETROLEUM PRODUCTS SOLD millions of barrels



Note—Data for 1967 through 1972 include operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more. Data prior to 1967 include the Company's interest in such companies owned one-third or more.

North Slope oil to a southern Alaskan port was further delayed by legal roadblocks raised by environmental groups. Construction will not begin until all legal proceedings have been resolved. Because of these delays, North Slope production probably cannot begin before 1977.

■ **New Gas Processing Plant**—A full-interest plant near Chickasha, Oklahoma, was completed in December, initially processing 25,000,000 cubic feet of gas daily. From this gas it extracts 3,600 barrels of natural gas liquids a day.

■ **Unitization and Induced Recovery**—More than 25% of the Company's domestic oil production was induced through injection of natural gas, steam, water, or other fluids into underground formations to produce oil which otherwise would be left in the ground. During 1972 the Company participated in forming eight new induced recovery units. At year-end we owned interests in 287 induced recovery units or projects, of which 89 were Phillips-operated.

NATURAL GAS

■ **Sales Revenues Increase**—The Company's natural gas revenues rose 10% to a new high due to improved domestic sales prices and higher sales volumes from Canadian interests and the British sector of the North Sea. Natural gas sales volume in the U. S. was down slightly.

REVENUES*	1972	1971
Gas revenues, U. S.	\$137,300,000	\$129,600,000
Gas revenues, outside U. S.	\$ 58,400,000	\$ 48,200,000

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more.

■ **British North Sea Gas Expansion**—A fourth drilling platform was installed and three development wells were drilled in the Hewett Field, owned 19% by Phillips. Plans were completed for a second pipeline from the field to the gas processing terminal onshore. After completion of these facilities and of additional drilling in late 1973, the field's daily average gas production will be increased nearly 50% to about 750,000,000 cubic feet.

■ **Sale of Norway North Sea Gas**—Late in the year Phillips and partners reached an agreement with a consortium of companies in four European nations on a contract for sale by the group of natural gas to be produced from the Ekofisk, West Ekofisk, Tor, and Cod fields in the Norwegian sector of the North Sea. Phillips has 37% interest in this group. Deliveries are expected to begin October 1, 1975, and to total at least six trillion cubic feet of gas during the 20-year term of the contract. Plans are in progress to construct a pipeline to the West German coast near Emden to deliver the gas. After a short build-up period, volumes will be one billion cubic feet of gas per day. Pipeline construction and delivery schedules are subject to necessary Norwegian and German government approvals.

■ **FPC Pricing Policies Modified**—Only Congress can remove or make basic revisions in regulation of wellhead prices for interstate gas sales. However, the Federal Power Commission, in face of a growing gas shortage, initiated new policies intended to encourage exploration for and development of additional gas reserves and commitment of these reserves to the interstate gas markets. While these policies were of limited effectiveness, they were utilized to the maximum extent possible to enhance results of the Company's gas marketing activities.

■ **Helium Conservation Program**—The U. S. Government continued to purchase helium, a scarce natural

resource, under three contracts entered into under the Helium Conservation Program. In 1971, the Government attempted to terminate its helium purchase contracts, but was prevented by court order from doing so. At year-end 1972, the matter was unresolved and the future of the program was still undetermined.

Under the conservation program, helium which would otherwise be wasted to the air is recovered from natural gas, sold to the Government, and stored for future uses. The Company believes this program should be continued for environmental, conservation, and economic reasons.

REFINING OF CRUDE OIL AND NATURAL GAS LIQUIDS

Total liquids processed by our six U. S. refineries reached record levels for the second consecutive year.

Domestic crude oil supplies tightened even though production in principal Mid-Continent producing states neared capacity levels. Our Sweeny Refinery, near the Texas coast, began processing imported crude oil on a regular basis. Phillips Pipe Line Company expanded capacity of the West Texas-to-Borger crude oil pipeline system by 19,000 barrels per day to maintain an adequate crude oil supply to our refinery at Borger. Production of crude in the Borger area had continued to decline.

REFINERY THROUGHPUTS	Barrels Daily*	
	1972	1971
UNITED STATES		
Crude oil.....	386,000	371,000
Natural gas liquids.....	159,000	157,000
OUTSIDE UNITED STATES		
Crude oil and natural gas liquids.....	64,000	77,000

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more.

In addition to these refinery throughputs, average daily naphtha runs were 48,100 barrels into our Puerto Rico chemical complex and 39,800 barrels into 49% owned Petrochim's plant in Belgium.

■ **Expansion Projects**—An improvement in the alkylation unit of the refinery at Borger, Texas, was completed, and work began on expanding the alkylation unit at the Woods Cross, Utah, Refinery. These projects increase the yields of high-octane motor fuel blending stocks. Such stocks are needed in providing fuels for future automobiles designed to operate at the lower emission levels required by the Federal Government.

An expansion program begun at the India refinery of Cochin Refineries Limited, 26% owned by Phillips, will be completed in 1973. Capacity of the refinery will be increased from 53,000 to 66,000 barrels a day.

■ **Operating Improvements**—Operating improvements made at Company refineries resulted in reduced catalyst costs and longer operating runs before maintenance interruptions.

PETROLEUM PRODUCTS SALES

Worldwide petroleum products sales increased slightly over 1971 to an average of 733,000 barrels daily. This rise was due mainly to an increase in automotive gasoline and liquefied petroleum gas sales.

■ **Product Markets Become Firmer**—U. S. retail markets for automotive gasoline were depressed until late summer, when demand surpassed all forecasts and began to exceed the supply. Although gasoline prices firmed, they remained at unsatisfactory levels partly because of Federal price controls. Such controls also adversely affected prices of distillates, which also became in short supply.

Liquefied petroleum gas prices were held by Federal controls to unreasonably low levels, although some increases were placed into effect September 1.

	Barrels Daily*	
PETROLEUM PRODUCTS SOLD	1972	1971
UNITED STATES		
Automotive gasoline.....	323,000	311,000
Aviation fuels.....	27,000	27,000
Distillates.....	101,000	98,000
Liquefied petroleum gas.....	111,000	106,000
Other products.....	43,000	41,000
Total U. S.....	605,000	583,000
OUTSIDE U. S.....	128,000	141,000
WORLDWIDE.....	733,000	724,000

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more.

■ **Elimination of Unprofitable Operations**—Phillips elected at mid-year to withdraw from the marketing of branded automotive-related products and distillates in most of the northeastern United States. The Company's operations there have not been profitable, mainly because of thin distribution. Orderly withdrawal will be carried out over a 15-month period. About 7% of all service stations selling our products are affected. We eliminated an additional 500 service stations elsewhere as a part of our program to dispose of low-profit operations.

■ **Changes in Marketing Methods**—Phillips took constructive steps to adjust to rapidly changing U. S. gasoline marketing conditions.

Today's market requires a flexible program with many options to best meet varied customer demands.

Price and quick-stop convenience, for example, are becoming more important to many consumers than full-service stops. Therefore, the Company substantially increased its sales through local-brand stations, which offer fewer services and sell gasoline at lower prices than Phillips 66 branded outlets. We also increased the number of self-service stations and full-service stations with some self-service pumps. Self-service units have reduced our operating costs and increased sales volumes in the areas served.

■ **Lubricant Sales Increased**—A 5% increase in Trop-Artic motor oil sales highlighted greater sales of lubricants.

Phillips introduced Trop-Artic All Season Motor Oil SAE 10W-40. This addition to our line of premium motor oils contains our new Phil-Ad Viscosity Index Improver. The additive gives our 10W-40 weight oil a quality advantage by enabling the oil to sustain maximum lubrication under a wide range of severe operating conditions.

CHEMICALS

Revenue from sales of chemicals was \$386,400,000 in 1972 compared with \$338,200,000 in 1971. This does not include our interest in sales of companies owned 20% to 50% inclusive, for which equity accounting is practiced. Results were improved mainly because of increases in sales volumes and improved operating efficiencies, although wage rates and other costs of doing business rose.

Following a management study, all domestic functions from manufacturing through marketing for the Company's four major chemical product lines—plastics, rubber chemicals, fertilizers, and special products—were assigned to four integrated units within the Chemical Department. This step, which reflected a major change in the Company's operating philosophy, established full accountability for earnings from each product group. We also began operating new facilities and commercialized new products which will provide a broader base for future earnings.

■ **Plastic Resins**—Sales volume of polyolefin resins rose 11%. A balancing of supply and demand factors for polyolefin resins, particularly high-density polyethylene, led to a firming of prices in the latter part of the year and cessation of the downward price trend of the last several years.

Operation began late in the year of plants near Borger, Texas, to produce a new butadiene-styrene polymer, K-Resin, and a new polyphenylene sulfide plastic, Ryton. K-Resin polymers combine toughness with exceptional transparency. There is great demand for materials with these qualities in the packaging field. The resistance of Ryton resins to heat, wear, and chemical corrosion provide them strong market advantages for use in molded parts, metal coatings, and other applications requiring these properties.

■ **Rubber Chemicals**—Carbon black sales volume increased, but average prices were lower.

Sales of synthetic rubber increased slightly from 1971. Prices stabilized as demand neared industry capacity. Demand for Solprene specialty polymers continued to increase and several new types were introduced.

There was a rise in sales volume of butadiene. Manufacturing costs were reduced through improved operation of our oxidative dehydrogenation process.

■ **Fertilizers**—Worldwide fertilizer sales volume increased slightly. It appears that fertilizer demand and industry capacity are nearing a state of balance after a long period of excess capacity. Our average realized prices for most fertilizers were higher than 1971 prices, more than offsetting an increase in transportation costs.

■ **Special Products**—Revenue from sales of special products increased substantially, reflecting increased volumes and prices for most products. These products consist mainly of ethylene, aromatics, high-purity hydrocarbons, petro-sulfur compounds, solvents, and drilling mud additives.

A plant to produce Phillips new viscosity index improver, the key additive used in the new Trop-Artic 10W-40 Motor Oil, began operation.

New products introduced include a family of fluorochemicals, and a flame-proofing additive for polypropylene fibers.

■ **Plant Expansion**—Principal chemical plant capacities added during the year and new projects under construction at year-end are shown in the following table:

PRODUCT	LOCATION	PHILLIPS INTEREST	ADDITIONAL GROSS ANNUAL CAPACITY
COMPLETED DURING 1972			
Low-density polyethylene ⁽¹⁾	Houston, Texas	100%	46,000,000 pounds
Butadiene-styrene plastic	Borger, Texas*	100%	10,000,000 pounds
Polyphenylene sulfide plastic	Borger, Texas*	100%	6,000,000 pounds
Polystyrene	Feluy, Belgium*	50%	55,100,000 pounds
Polyvinylchloride	Antwerp, Belgium	50%	11,000,000 pounds
Synthetic rubber	Borger, Texas	100%	2,300 long tons
Synthetic rubber	Santander, Spain	42%	19,700 long tons
Carbon black	Santander, Spain	42%	6,600,000 pounds
Carbon black	Bordeaux, France	50%	17,600,000 pounds
Carbon black	Malmö, Sweden	50%	4,400,000 pounds
Carbon black	Hannover, West Germany	100%	11,000,000 pounds

⁽¹⁾Plant can also be used to produce high-density polyethylene

UNDER CONSTRUCTION OR AUTHORIZED AT YEAR-END			
High-density polyethylene	Le Havre, France	20%	52,900,000 pounds
Polystyrene	Feluy, Belgium	50%	63,900,000 pounds
Synthetic rubber	Salamanca, Mexico	39%	7,900 long tons
Carbon black	Borger, Texas	100%	20,000,000 pounds
Carbon black	Candeias, Brazil	35%	39,700,000 pounds
Carbon black	Santander, Spain	42%	13,200,000 pounds
Carbon black	Durgapur, India	30%	3,800,000 pounds
Butadiene	Puertollano, Spain	42%	70,600,000 pounds
Sulfuric acid	Santos, Brazil	60%	20,000 tons

*New plants; others are additions to existing plants.

FIBERS

Consolidated fibers sales revenues were \$103,200,000 compared with \$70,200,000 in 1971. Sales of Phillips 66 nylon, Quintess polyester, Marvess olefin staple, and Loktuft carpet backing reached new highs, with plants operating at capacity levels. Most prices were firmer, but polyester prices averaged lower.

Increases in production capabilities and expansion of product lines allowed the Company to take greater advantage of the growing use of synthetic fibers in the apparel and home furnishings fields. Demand for polyester textile filament yarn for use in knitted clothing was especially strong.

A new carpet filament yarn, Marvess Olefin III, was successfully introduced, and expansion of production units was started.

Fibers International Corporation, 94% owned, began producing Phillips 66 nylon bulked continuous filament carpet yarn at the firm's nylon and polyester yarn plant at Guayama, Puerto Rico.

FABRICATED PRODUCTS AND SERVICES

■ *Fabricated Products Results Improve*—Results from our fabricated plastic and paper products businesses were generally better than in 1971. Total sales revenues were \$100,000,000 compared with \$86,600,000 in 1971.

Vinyl film sales rose 32%, reflecting in particular a growing demand for Reneer vinyl wood grain laminate for use in veneering television, radio, and kitchen cabinets. Production of vinyl laminate

was expanded at the Auburn, Pennsylvania, plant.

Sales of plastic pipe of Phillips Products Co., Inc., increased, and operating results improved markedly as a number of unprofitable product lines were discontinued. There was increased usage of our large diameter high-density polyethylene pipe for natural gas distribution and sewage effluent systems, and for industrial plant applications. Sales of molded plastic items, including a new proprietary line of horticulture products, improved 48%. Expansion of two plants and modernization of a third is under way.

A major user of plastic bottles for household products selected our new Sixty-Six bottle for introduction of a new product. A major advantage of the Sixty-Six bottle is that it can be incinerated without creating pollution.

Sales by H. P. Smith Paper Co., which makes films and paper coatings, rose substantially. Rapid growth in the pressure-sensitive label and decal field contributed to these increased sales.

Our 35% interest in Kleber-Renolit Plastiques, a plastics fabrication company in France, was sold during the year.

■ *Process Control Systems*—Applied Automation, Inc., a wholly owned subsidiary, introduced new Optrol I D-II digital control and Optichrom chromatograph systems for use in the petroleum and petrochemical industries. They provide benefits of energy conservation, increased productivity, consistent product quality, and improved pollution control.

RESEARCH AND DEVELOPMENT

Phillips research and development activities were directed toward creating new earnings sources, improving existing sources, strengthening the Company's competitive position, and keeping products and processing facilities in pace with energy and environmental trends.

■ *Results*—Achievements included an improved catalyst for use in gasoline manufacturing, and a new material containing gelled polymers useful for improving the productivity of deep, high temperature gas wells and of waterflood oil recovery operations.

A pilot-scale gas desulfurization plant was constructed to provide design information for a large unit which will treat natural gas produced in the Norwegian area of the North Sea.

Company research people joined our domestic and overseas exploration personnel in developing improved techniques and equipment for evaluating the petroleum producing potential of unexplored areas.

Fuel and lubricant research stressed the development of products to meet the changing needs of automobile engines equipped with advanced emission controls. Special effort was directed toward developing processes to provide the most economical means of making the high-octane blending materials needed for future automotive fuels. Toward this end, work to perfect an improved hydrocarbon separation process and an isomerization process based on a Phillips catalyst was at advanced stages.

The Phillips heavy oil cracking process was shown to be useful for converting viscous high-sulfur oils into materials which can be desulfurized by conventional processes. A research team made progress toward improving the efficiency and reducing the cost of converting coal into a clean-burning gas product.

■ **Environmental Protection Research**—To assure that all Company facilities continue operating within current environmental regulations and that they also are well prepared to meet future standards, Phillips maintains an aggressive environmental research effort. As part of this effort, the Company undertook research projects to further improve the quality of process water discharged from refineries and chemical plants. Company research people also developed highly sensitive analytical methods for detecting the presence of minute amounts of certain metals in process water as well as in refinery products, plastics, and rubber.

■ **Patents and Licensing**—For the fifth straight year, Phillips ranked first among oil companies in the number of U. S. patents issued during the year with 436. At year-end Phillips had 6,445 active U. S. patents, second in the petroleum industry. The Company was issued 400 patents in 29 countries outside the United States in 1972. Licensing income during 1972 was the highest in Phillips history.

PEOPLE

EMPLOYEES . . . The Suggestion Plan produced record savings for the Company through cost reductions and operating improvements. A total of 4,023 awardable ideas were adopted including one which earned the suggestor the largest award ever presented in the Plan's 40-year history.

Better use of manpower was emphasized at all levels of Company operations. Management development programs received stronger emphasis, including increased involvement of departmental and executive management.

The safety record of employees continued to be above the average for the petroleum industry, which itself had a safety record better than that of industry generally. Many groups of employees worked the entire year without a disabling injury.

In January 1972, Phillips granted general wage increases to most employees not exempt from overtime payment laws. Improvements were made in several employee benefit plans. Similar wage increases and benefit improvements were made throughout our industry.

STOCKHOLDERS . . . There were 153,292 shareholders at year-end, a decrease of 12,720 during the year. Stockholders resided in every state and U. S. possession and in 55 other countries. The largest ownership block consisted of the interests of 13,300 employees in the Employee Thrift Plan. This Plan at year-end held 7% of total shares outstanding.

MANAGEMENT CHANGES . . . The Board of Directors, on December 11, accepted the resignation of Mr. W. W. Keeler as chief executive officer effective January 1, 1973, and as Chairman of the Board effective April 1, 1973, when he reaches normal retirement age as an employee. The Board elected Mr. John M. Houchin, Deputy Chairman, to become Chairman of the Board effective April 1, and Mr. W. F. Martin, President, to become President and Chief Executive Officer January 1. Mr. Keeler, who has 45 years of Phillips service, will remain a member of the Board. Mr. Sloan K. Childers, Director of Public Affairs and Public Relations in the former Advertising and Public Relations Department, was advanced to Manager of a newly formed Public Affairs Department May 1, 1972. Mr. K. W. Rugh, Vice President, Advertising and Public Relations for six years, retired on July 1, 1972, after 42 years of service with the Company.

We regret to report the death on January 13, 1973, of Mr. W. C. Hewitt, Executive Vice President and Chairman of the Planning and Budget Committee, a Director, and member

of the Executive Committee. On February 12, 1973, Mr. Harry D. Brookby was elected a Senior Vice President, Director, and member of the Executive Committee. He also became Chairman of the Planning and Budget Committee and continues as Chairman of the Operating Committee. Mr. Sloan K. Childers was elected Vice President, Public Affairs.

PUBLIC AFFAIRS . . . The growing importance of good communication between the Company and the public, private organizations, and government prompted formation of the new Public Affairs Department. The new department assumed functions formerly conducted by the Advertising and Public Relations Department except for product advertising and sales promotion, which were transferred to the Marketing and Chemical departments. In addition, it received broadened responsibilities for government, community, youth, and public relations activities.

Progress on public affairs objectives was realized through executive speeches, articles and booklets, and liaison with government officials. We began CLEAR VOICE, a new public information program conducted by employees. Special stress was placed on our objective of increasing the public's understanding of issues crucial to the continued growth and strength of the Company, the petroleum industry, and private enterprise.

The understanding and support of stockholders can be of immeasurable benefit to the Company's public affairs program. Interested individuals may obtain information and assistance by writing to Phillips Petroleum Company, Public Affairs Department, Fourth Floor Phillips Building, Bartlesville, Oklahoma 74004.



A newly discovered oil field added to our reserves in Iranian waters.

An oil discovery was drilled by this rig in northeastern Utah.



The map at right indicates our acreage interests in the North Sea and oil and gas fields discovered in the sea. The inset focuses on discoveries in the Ekofisk area.

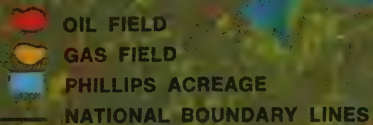
Left, this mammoth million barrel reinforced concrete crude oil storage tank is shown near completion at Stavanger, Norway, before it is towed to the Ekofisk Field. Below is the producing platform already erected in the field.



Due for completion in 1973, this pipeline will enable greatly increased Nigerian production.

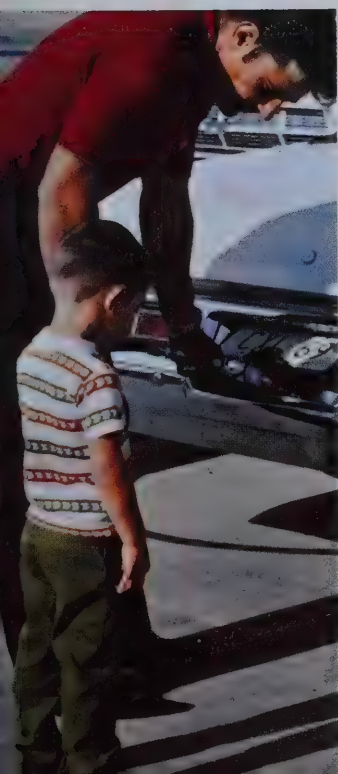
A major development drilling program was carried on in Nigeria to substantially increase the Company's future oil production.







New Trop-Artic All Season Motor Oil 10W-40 contains Phillips-developed additive enabling it to sustain maximum lubrication under a wide range of severe operating conditions.



Today's changing gasoline markets require a flexible program with many options to meet varied customer demands. One principal step taken by Phillips was to increase the number of self-service units, both with and without the Phillips 66 brand, for customers looking for convenience and economy.





Above, this plant at Borger, Texas, began making a newly developed clear plastic material, trademarked K-Resin, for packaging applications in such industries as hardware, pharmaceutical, toy, and food.

The Company's tough new Ryton plastic is used as a coating and molding material where resistance to chemical corrosion, high temperatures, and wear is critical. Here Ryton is applied as an internal coating to an industrial valve.



Fibers International Corporation,
92% owned, began producing new nylon carpet
yarn at its plant in Puerto Rico.



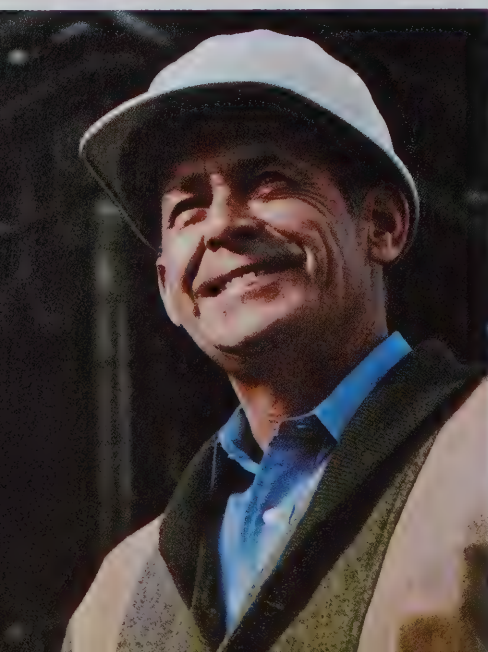
Below, new plant of 50% owned affiliate in
Belgium began manufacture of
polystyrene plastic resin for European markets.



Right, Phillips is directing in-depth research studies toward economic methods of converting coal to gas, in face of nation's growing natural gas shortage.

Lower right, plant waste water streams are monitored frequently for compliance with environmental standards in this well-equipped laboratory at our major manufacturing complex near Borger, Texas.

Below, L. E. Brain, refinery stillman at Borger, Texas, received the largest award in 40-year history of the Company's Suggestion Plan for a profit-improving idea which reduced utility costs and increased processing unit capacity.



PHILLIPS PETROLEUM COMPANY
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

		1972	1971
ASSETS	Current Assets:		
	Cash, including time deposits	\$ 287,718,000	\$ 187,989,000
	Short-term investments, at cost	50,764,000	37,126,000
	Notes and accounts receivable—		
	(less reserves: 1972—\$11,418,000; 1971—\$7,566,000)	383,854,000	382,745,000
	Inventories—Note 1:		
	Crude oil, petroleum products, and merchandise	245,764,000	259,251,000
	Materials and supplies	35,093,000	36,102,000
	Total Current Assets	<u>1,003,193,000</u>	<u>903,213,000</u>
	Investments and Long-Term Receivables—		
	(less reserves: 1972—\$9,732,000; 1971—\$8,771,000)—Notes 1 and 2	377,825,000	391,735,000
	Properties, Plants, and Equipment, at cost, less reserves—Note 3	1,857,831,000	1,838,037,000
	Prepaid and Deferred Charges	30,770,000	33,714,000
		<u>\$3,269,619,000</u>	<u>\$3,166,699,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	Current Liabilities:		
	Notes payable	\$ 6,335,000	\$ 17,327,000
	Accounts payable	270,159,000	237,159,000
	Long-term debt—due within one year	52,657,000	52,157,000
	Accrued taxes	113,145,000	102,549,000
	Other accruals	40,641,000	36,130,000
	Total Current Liabilities	<u>482,937,000</u>	<u>445,322,000</u>
	Long-Term Debt—Note 4	791,829,000	800,191,000
	Deferred Credits:		
	Income taxes—Note 6	61,484,000	62,996,000
	Other	41,874,000	41,776,000
	Total Deferred Credits	<u>103,358,000</u>	<u>104,772,000</u>
	Reserve for Contingencies	66,951,000	60,672,000
	Minority Interest in Consolidated Subsidiaries	4,721,000	6,557,000
	Stockholders' Equity:		
	Common stock, \$2.50 par value—Note 5:		
	Shares authorized—100,000,000		
	Shares issued—(1972—76,243,716; 1971—76,192,076)	190,609,000	190,480,000
	Capital in excess of par value of common stock—Note 5	440,806,000	437,248,000
	Earnings employed in the business	1,211,711,000	1,160,881,000
		<u>1,843,126,000</u>	<u>1,788,609,000</u>
	Less treasury stock, at cost—		
	(1972—857,005 shares; 1971—1,451,401 shares)—Note 5	23,303,000	39,424,000
	Total Stockholders' Equity	<u>1,819,823,000</u>	<u>1,749,185,000</u>
		<u>\$3,269,619,000</u>	<u>\$3,166,699,000</u>

PHILLIPS PETROLEUM COMPANY
CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

	1972	1971
Revenues:		
Gross operating revenues	\$2,512,742,000	\$2,363,199,000
Equity in earnings of non-consolidated companies	21,487,000	18,802,000
Other revenues	33,301,000	30,301,000
	<u>2,567,530,000</u>	<u>2,412,302,000</u>
Costs and Expenses:		
Costs and operating expenses	1,711,011,000	1,615,338,000
Selling, general, and administrative expenses	298,109,000	288,278,000
Depreciation, depletion, amortization, and retirements	223,099,000	201,268,000
Taxes other than income taxes*—Note 6	63,880,000	59,675,000
Interest and expense on indebtedness	58,846,000	62,602,000
Provision for income taxes—Note 6	64,157,000	52,825,000
	<u>2,419,102,000</u>	<u>2,279,986,000</u>
Net Income	<u>148,428,000</u>	<u>132,316,000</u>
Earnings Employed in the Business at Beginning of Year	<u>1,160,881,000</u>	<u>1,125,350,000</u>
	1,309,309,000	1,257,666,000
Dividends Paid (\$1.30 a share)	97,598,000	96,785,000
Earnings Employed in the Business at End of Year	<u>\$1,211,711,000</u>	<u>\$1,160,881,000</u>
Net Income Per Share of Common Stock	\$ 1.98	\$ 1.78

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

SOURCE	Net income	\$ 148,428,000	\$ 132,316,000
	Depreciation, depletion, amortization, and retirements	223,099,000	201,268,000
	Deferred income taxes	(1,512,000)	5,750,000
	Other (including equity in undistributed earnings of non-consolidated companies)	(2,570,000)	(6,637,000)
	Funds from operations	<u>367,445,000</u>	<u>332,697,000</u>
	Long-term debt	49,726,000	256,950,000
	Property sales and retirements	28,558,000	43,696,000
	Sales of investments	26,186,000	14,352,000
	Capital stock	19,808,000	20,770,000
	Other	4,026,000	6,510,000
		<u>\$ 495,749,000</u>	<u>\$ 674,975,000</u>
APPLICATION	Capital expenditures	\$ 264,696,000	\$ 224,966,000
	Investments and long-term receivables	10,706,000	37,694,000
	Reduction in long-term debt	58,088,000	144,672,000
	Cash dividends	97,598,000	96,785,000
	Increase in working capital	62,365,000	169,772,000
	Other	2,296,000	1,086,000
		<u>\$ 495,749,000</u>	<u>\$ 674,975,000</u>
WORKING CAPITAL CHANGES	Cash	\$ 99,729,000	\$ 55,672,000
	Short-term investments	13,638,000	32,357,000
	Notes and accounts receivable	1,109,000	(27,818,000)
	Inventories	(14,496,000)	25,150,000
	Total current assets	<u>99,980,000</u>	<u>85,361,000</u>
	Notes payable	(10,992,000)	(15,089,000)
	Accounts payable	33,000,000	(10,765,000)
	Long-term debt due within one year	500,000	(53,907,000)
	Accrued taxes and other accruals	15,107,000	(4,650,000)
	Total current liabilities	<u>37,615,000</u>	<u>(84,411,000)</u>
	Increase in working capital	<u>\$ 62,365,000</u>	<u>\$ 169,772,000</u>

*In addition, taxes of \$297,000,000 in 1972 and \$269,000,000 in 1971 were collected on the sale of petroleum products and paid to taxing agencies.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—ACCOUNTING POLICIES

Principles of Consolidation—The consolidated statements include the accounts of companies owned more than 50%. Investments in companies owned 20% to 50%, inclusive, and in corporate joint ventures are accounted for using the equity method. Investments in other companies are carried at cost.

Current assets and liabilities recorded in foreign currencies are translated into dollars at exchange rates in effect at year-end. All other foreign assets and liabilities, in general, are translated at exchange rates in effect when acquired or incurred. Exchange differences, which are not material, arising from these procedures are reflected in income.

Inventories—Crude oil and petroleum products are priced substantially at cost, which is lower than market in the aggregate, calculated mainly by the last-in, first-out method with crude oil on an annual basis and refined products, chemicals, and natural gasoline products on a monthly basis. Materials and supplies are priced at average cost or replacement cost, with allowance for condition of used material.

Depreciation and Depletion—Depreciation of properties, plants, and equipment subject thereto, is determined by the group straight-line method, individual unit straight-line method, and the unit of production method, applying the method considered most appropriate for each type of property. Leasehold costs of producing properties and the intangible development costs of productive wells are amortized on the unit of production method based on estimated recoverable oil and gas reserves.

Exploratory Costs—Undeveloped oil and gas leaseholds are capitalized and that portion of the costs applicable to properties which it is estimated will be surrendered is amortized over the estimated holding period. Dry holes and undeveloped lease rentals are expensed. Geological and geophysical costs resulting in the acquisition or retention of leases are capitalized with the remainder being expensed.

Property Dispositions—When complete units of depreciable property are retired or are sold for continued use, reserves are reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are retired or disposed of, the difference between asset cost and salvage value is charged or credited to the reserve for depreciation.

Maintenance and Repairs—Minor renewals and replacements are charged against income. Major renewals and replacements are charged to property accounts.

Research and Development Expenses—Research and development expenses are charged against income as incurred.

Investment Tax Credits—Investment tax credits are applied as a reduction of the provision for income taxes in the years used.

NOTE 2—INVESTMENTS

Investments at December 31, 1972, include 10,326,321 shares of common stock of Pacific Petroleum Ltd. ("Pacific"), representing 48.51% of the total shares outstanding. These securities had a carrying value of \$162,177,000 and a quoted market value of \$433,705,000 at December 31, 1972, which does not purport to be realizable value. At the same date, net assets of Pacific in Canadian dollars amounted to \$324,549,000, which consists of current assets \$61,951,000, net property, plant and equipment \$393,851,000, investments \$43,626,000, other assets \$4,121,000, current liabilities \$23,800,000, and long-term debt \$155,200,000. Earnings of Pacific for 1972 in Canadian dollars were \$29,279,000, exclusive of deferred income taxes of \$2,550,000 on depreciable assets.

NOTE 3—PROPERTIES, PLANTS, AND EQUIPMENT

The Company's investment in properties, plants, and equipment is summarized as follows:

	December 31	
	1972	1971
Production.....	\$1,902,962,000	\$1,796,344,000
Manufacturing.....	1,314,438,000	1,284,637,000
Transportation.....	286,212,000	276,106,000
Marketing.....	314,285,000	326,519,000
Other.....	96,183,000	95,888,000
	3,914,080,000	3,779,494,000
Less depreciation, depletion, and amortization..	2,056,249,000	1,941,457,000
	<u>\$1,857,831,000</u>	<u>\$1,838,037,000</u>

NOTE 4—LONG-TERM DEBT

Long-term debt due after one year at December 31, 1972, consists of the following:

7½% Debentures Due 2001.....	\$199,083,000
6% Guaranteed Sinking Fund Debentures Due 1981.....	18,750,000
5½% Guaranteed Swiss Bonds due 1983.....	13,838,000
First Mortgage and Leasehold 3% Sinking Fund Bonds due 1974-1975	960,000
Notes payable to banks, insurance companies, and others:	
At 4%-5%, due 1974-1987.....	74,304,000
At 5½%-6½%, due 1974-1991.....	363,286,000
At ¾% above the weighted average of respective London Inter-Bank offering rates, due 1974-1978.....	43,243,000
At 6%-9½%, due 1974-1984.....	48,326,000
Purchase obligations.....	30,039,000
Total.....	<u>\$791,829,000</u>

Maturities of long-term debt for the next five years are: 1973—\$52,656,000 (included in current liabilities); 1974—\$62,004,000; 1975—\$47,957,000; 1976—\$50,412,000; and 1977—\$55,053,000.

NOTE 5—COMMON STOCK

The Company's restricted stock option plan was terminated December 31, 1963, except for the options then outstanding. Options to purchase 84,810 shares were outstanding to 257 key employees at January 1, 1972. During the year, options for 51,640 shares were exercised for an aggregate of \$1,426,000 and options for 15,050 shares were cancelled. At December 31, 1972, options expiring April 30, 1973, were outstanding to 48 key employees to purchase 18,120 shares at a price of \$27 a share.

At January 1, 1972, options for 51,360 shares of treasury stock were also outstanding to 11 individuals at an average price of \$26.43 a share. During the year, these options, granted in connection with the acquisition of various corporations, were exercised for an aggregate of \$1,358,000.

Capital in excess of par value of common stock was increased during 1972 by \$3,558,000 resulting from the exercise of stock options and the sale of 543,036 shares of treasury stock.

NOTE 6—TAXES

	1972	1971
Operating taxes		
Property.....	\$ 30,864,000	\$ 30,857,000
Gross production.....	13,417,000	12,260,000
Social security.....	13,367,000	11,312,000
Other.....	6,232,000	5,246,000
	<u>63,880,000</u>	<u>59,675,000</u>
Income taxes		
Federal		
Current.....	45,324,000	29,822,000
Deferred.....	(1,512,000)	5,750,000
Investment tax credits.....	(6,103,000)	(2,838,000)
State.....	5,342,000	3,125,000
Foreign.....	21,106,000	16,966,000
	<u>64,157,000</u>	<u>52,825,000</u>
Total taxes charged to income.....	<u>128,037,000</u>	<u>112,500,000</u>
Excise taxes collected on the sale of petroleum products and paid to taxing agencies.....	<u>297,000,000</u>	<u>269,000,000</u>
Total.....	<u>\$425,037,000</u>	<u>\$381,500,000</u>

In accordance with Accounting Principles Board Opinion No. 23, income taxes have not been accrued on \$80,763,000 of the Company's equity in undistributed earnings of certain subsidiaries and corporate joint ventures because of reinvestment plans for such funds.

NOTE 7—COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 1972, the Company had leases expiring more than three years from that date covering bulk and service stations, tank cars, office space, and other facilities. The minimum rentals payable under these leases for 1972 and for each of the next five years are estimated as follows: 1972—\$52,200,000; 1973—\$48,100,000; 1974—\$48,100,000; 1975—\$48,100,000; 1976—\$47,300,000; 1977—\$45,100,000. Rental income from such stations sub-leased and mileage income on such leased tank cars for 1972 are \$22,600,000 and are not expected to differ significantly through 1977.

At December 31, 1972, the Company was contingently liable for \$125,148,000 of obligations of other companies. In addition, the Company has contingent liabilities with respect to claims and commitments arising from agreements with pipeline companies in which it holds stock interests whereby it may be required to provide such companies with additional funds through advances against future charges for transportation of crude oil or petroleum products. A number of suits are also pending in various courts in which the parent company or a subsidiary appears as plaintiff or defendant, including a federal anti-trust proceeding which seeks to force divestiture of the properties

acquired from Tidewater Oil Company on July 14, 1966. While it is impossible to estimate the ultimate liability in respect to contingent liabilities, the Company is of the opinion that the aggregate amount of such liabilities for which adequate provision has not been made is not significant in relation to total consolidated assets.

NOTE 8—RETIREMENT INCOME PLANS

The parent company and its subsidiaries have retirement plans covering substantially all of their employees. These plans are being funded based on pension costs accrued as determined by actuarial studies. Charges to income for such plans were \$17,575,000 for 1972 and \$15,495,000 for 1971, which include, as to certain of the plans, amortization of prior service costs over 25 year periods.

NOTE 9—INCENTIVE COMPENSATION PLAN

Pursuant to provisions of the Company's Incentive Compensation Plan, adopted in 1965, a provision of \$1,300,000 was made against 1972 earnings in anticipation of awards in 1973. No provision was made against 1971 earnings nor were any awards for such year granted during 1972.

NOTE 10—FOREIGN

The balance sheets include net assets applicable to operations in foreign countries in the approximate amounts of \$564,126,000 for 1972 and \$532,298,000 for 1971. Net income from such operations was \$22,720,000 for 1972 and \$23,436,000 for 1971.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors,
Phillips Petroleum Company:

We have examined the accompanying consolidated balance sheet of Phillips Petroleum Company at December 31, 1972 and the related consolidated statements of income and earnings employed in the business and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1972 and 1971 and the consolidated results of their operations and the source and application of their consolidated funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Tulsa, Oklahoma
February 15, 1973

TEN-YEAR FINANCIAL REVIEW (dollars in millions, except per share amounts)

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
CONSOLIDATED BALANCE SHEETS										
AT DECEMBER 31										
Assets										
Current assets:										
Cash and short-term investments	\$ 338.5	225.1	137.1	187.4	135.4	147.1	176.2	93.9	89.7	113.4
Notes and accounts receivable, less reserves	383.8	382.8	410.6	392.3	388.3	351.5	303.2	219.4	192.6	183.2
Inventories:										
Crude oil and petroleum products	231.2	240.5	212.6	217.6	220.3	203.9	191.1	134.1	130.4	127.7
Merchandise	14.6	18.7	21.9	24.1	21.5	24.3	27.1	17.9	14.5	12.8
Materials and supplies	35.1	36.1	35.7	31.2	29.6	30.8	31.5	25.5	22.0	23.2
Total current assets	1,003.2	903.2	817.9	852.6	795.1	757.6	729.1	490.8	449.2	460.3
Investments and long-term receivables, less reserves	377.8	391.8	361.6	383.5	332.1	317.8	311.7	309.3	278.5	247.2
Properties, plants, and equipment, less reserves	1,857.8	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7	1,657.9	1,208.7	1,131.1	1,084.6
Prepaid and deferred charges	30.8	33.7	41.5	39.9	36.4	29.6	32.4	20.3	16.4	14.2
Total assets	3,269.6	3,166.7	3,071.5	3,122.4	2,913.5	2,814.7	2,731.1	2,029.1	1,875.2	1,806.3
Liabilities and stockholders' equity										
Current liabilities:										
Notes payable	\$ 6.3	17.3	32.4	21.4	27.1	45.6	56.5	—	—	—
Accounts payable	270.2	237.2	247.9	229.7	239.7	220.2	197.3	160.3	134.6	125.1
Long-term debt—due within one year	52.7	52.2	106.1	75.9	47.1	49.9	180.9	3.5	16.9	32.1
Accrued taxes	113.1	102.5	114.5	119.7	87.5	86.3	102.5	59.0	53.8	67.1
Other accruals	40.6	36.1	28.9	27.9	27.5	27.7	34.6	20.8	19.5	17.1
Total current liabilities	482.9	445.3	529.8	474.6	428.9	429.7	571.8	243.6	224.8	241.4
Long-term debt	791.8	800.2	687.9	787.4	655.2	690.0	660.3	333.7	260.6	201.5
Deferred income taxes	61.5	63.0	57.3	59.7	68.4	70.9	62.8	86.8	81.5	73.0
Other deferred credits	41.9	41.8	36.3	51.7	63.5	61.2	46.7	45.6	43.9	32.1
Reserve for contingencies	67.0	60.7	57.4	50.5	45.2	27.6	29.9	24.2	22.2	19.8
Minority interest in consolidated subsidiaries	4.7	6.5	9.9	21.1	15.6	15.9	11.9	—	—	—
Stockholders' equity:										
Common stock, \$2.50 par value	190.6	190.5	190.3	190.3	189.7	179.6	173.2	172.3	172.0	172.0
Capital in excess of par value of common stock	440.8	437.2	433.3	433.3	427.4	329.2	271.9	264.2	261.6	261.0
Earnings employed in the business	1,211.7	1,160.9	1,125.4	1,110.4	1,076.5	1,067.9	961.1	918.2	859.0	811.8
Less treasury stock	1,843.1	1,788.6	1,749.0	1,734.0	1,693.6	1,576.7	1,406.2	1,354.7	1,292.6	1,244.8
Total stockholders' equity	23.3	39.4	56.1	56.6	56.9	57.3	58.5	59.5	50.4	6.3
Total stockholders' equity	1,819.8	1,749.2	1,692.9	1,677.4	1,636.7	1,519.4	1,347.7	1,295.2	1,242.2	1,238.5
Total liabilities and stockholders' equity	3,269.6	3,166.7	3,071.5	3,122.4	2,913.5	2,814.7	2,731.1	2,029.1	1,875.2	1,806.3
Stockholders' equity per share*	\$ 24.14	23.40	22.86	22.66	22.18	21.79	20.08	19.41	18.56	18.07

CONSOLIDATED STATEMENTS OF PROPERTIES, PLANTS, AND EQUIPMENT

Gross investment										
Production	\$1,903.0	1,796.4	1,749.5	1,729.6	1,587.8	1,495.9	1,460.6	1,390.7	1,342.8	1,279.7
Manufacturing	1,314.4	1,284.6	1,229.7	1,165.1	1,112.8	1,065.2	967.6	669.9	629.5	592.1
Transportation	286.2	276.1	279.7	278.6	276.1	271.6	272.2	195.3	191.5	178.0
Marketing	314.3	326.5	337.5	329.7	323.4	346.9	347.7	188.4	168.6	167.5
Other	96.2	95.9	96.4	93.1	93.4	88.4	97.2	79.8	76.6	71.8
	3,914.1	3,779.5	3,692.8	3,596.1	3,393.5	3,268.0	3,145.3	2,524.1	2,409.0	2,289.1
Net investment										
Production	\$ 816.4	756.7	743.2	745.5	651.3	598.4	593.3	600.8	557.5	529.7
Manufacturing	661.8	684.8	682.9	668.9	660.2	644.0	567.9	323.7	304.4	292.9
Transportation	126.5	125.6	135.2	142.8	146.9	150.9	161.2	101.5	103.5	96.0
Marketing	205.6	221.2	237.5	237.8	238.0	265.6	274.4	137.0	122.2	125.5
Other	47.5	49.7	51.7	51.4	53.5	50.8	61.1	45.7	43.5	40.5
	1,857.8	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7	1,657.9	1,208.7	1,131.1	1,084.6

*Adjusted for two-for-one stock split in 1969.

Note—Financial data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption in 1971 of equity accounting for investments.

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
CONSOLIDATED STATEMENTS OF INCOME										
Gross operating revenues:										
Petroleum products.....	\$1,233.7	1,188.2	1,146.2	1,067.8	1,044.2	999.0	868.7	682.3	639.5	640.8
Chemicals, fibers, and fabricated products.....	589.6	495.0	477.2	472.7	446.6	398.2	357.2	306.7	271.2	267.4
Crude oil.....	327.2	320.8	293.2	338.0	304.4	276.9	253.8	213.3	188.2	198.7
Natural gas (including helium).....	180.4	169.3	165.2	137.8	133.8	137.5	129.9	122.3	119.9	114.2
Other sales and services.....	181.8	189.9	191.3	185.7	177.9	170.0	150.7	126.1	122.7	114.0
Total gross operating revenues.....	2,512.7	2,363.2	2,273.1	2,202.0	2,106.9	1,981.6	1,760.3	1,450.7	1,341.5	1,335.1
Other revenues (including equity in earnings of non-consolidated companies).....	54.8	49.1	38.2	30.0	20.3	31.7	24.1	14.0	11.3	21.5
Total revenues.....	2,567.5	2,412.3	2,311.3	2,232.0	2,127.2	2,013.3	1,784.4	1,464.7	1,352.8	1,356.6
Costs and operating expenses.....	1,711.0	1,615.3	1,541.2	1,486.7	1,410.4	1,276.1	1,124.6	942.3	878.0	862.1
Selling, general, and administrative expenses.....	298.1	288.3	288.0	270.5	267.9	245.9	223.8	166.9	154.4	152.8
Depreciation, depletion, amortization, and retirements.....	223.1	201.3	198.4	195.1	187.0	170.1	158.1	140.9	125.8	132.8
Taxes other than income taxes.....	63.9	59.7	57.6	53.8	51.8	49.3	42.3	33.7	31.7	32.1
Interest and expense on indebtedness.....	58.8	62.6	54.2	49.6	40.5	43.0	32.0	15.0	10.7	10.6
Provision for income taxes.....	64.2	52.8	52.0	46.2	42.7	64.4	65.2	38.2	37.2	58.1
Total costs and expenses.....	2,419.1	2,280.0	2,191.4	2,101.9	2,000.3	1,848.8	1,646.0	1,337.0	1,237.8	1,248.5
Income before extraordinary items.....	148.4	132.3	119.9	130.1	126.9	164.5	138.4	127.7	115.0	108.1
Extraordinary items.....	—	—	(8.7)	—	6.9	—	7.1	—	—	8.4
Net income.....	148.4	132.3	111.2	130.1	133.8	164.5	145.5	127.7	115.0	116.5
Per average share outstanding:*										
Income before extraordinary items.....	\$ 1.98	1.78	1.62	1.76	1.74	2.38	2.07	1.91	1.73	1.58
Net income.....	\$ 1.98	1.78	1.50	1.76	1.83	2.38	2.18	1.91	1.73	1.71
Dividends per share*.....	\$ 1.30	1.30	1.30	1.30	1.27½	1.17½	1.10	1.02½	1.00	.99
Income before extraordinary items:										
As percent of average total assets.....	4.6	4.3	3.9	4.4	4.5	5.9	6.0	6.5	6.3	6.0
As percent of total revenues.....	5.8	5.5	5.2	5.8	6.0	8.2	7.8	8.7	8.5	8.0
Percent of total revenues from outside U. S.....	16.1	17.4	13.4	12.2	11.1	9.3	8.9	9.0	7.1	6.7

**CONSOLIDATED STATEMENTS OF SOURCE
AND APPLICATION OF FUNDS**

Source										
Income before extraordinary items.....	\$ 148.4	132.3	119.9	130.1	126.9	164.5	138.4	127.7	115.0	108.1
Depreciation, depletion, amortization, and retirements....	223.1	201.3	198.4	195.1	187.0	170.1	158.1	140.9	125.8	132.8
Deferred income taxes.....	(1.5)	5.7	(2.5)	(8.7)	6.6	2.5	(1.4)	5.4	8.5	11.8
Other (including equity in undistributed earnings of non-consolidated companies).....	(2.6)	(6.6)	.8	.9	(3.0)	2.4	8.7	7.3	2.3	5.2
Funds from operations.....	367.4	332.7	316.6	317.4	317.5	339.5	303.8	281.3	251.6	257.9
Long-term debt.....	49.7	257.0	10.0	210.9	152.0	136.1	432.0	77.6	59.6	.4
Property sales and retirements (including extraordinary items).....	28.6	43.7	31.1	27.1	47.9	55.3	14.7	8.0	7.9	23.8
Sales of investments (including extraordinary items).....	26.2	14.3	23.1	5.3	32.9	19.7	19.6	4.9	18.9	93.8
Capital stock.....	19.8	20.8	.5	6.8	108.7	64.9	9.6	(6.2)	(43.5)	(6.0)
Other.....	4.0	6.5	2.8	11.8	8.0	22.2	.7	1.6	11.9	2.0
	495.7	675.0	384.1	579.3	667.0	637.7	780.4	367.2	306.4	371.9
Application										
Capital expenditures:										
Production.....	\$ 196.0	143.3	132.3	207.3	171.6	117.5	136.0	144.8	109.4	80.7
Manufacturing.....	48.5	58.3	74.5	77.8	85.0	136.3	230.9	50.5	44.8	25.5
Transportation.....	11.4	7.8	6.2	6.5	8.5	1.3	68.6	5.3	14.4	13.8
Marketing.....	6.1	11.3	20.7	21.8	17.4	19.1	125.6	26.3	20.9	27.6
Other.....	2.7	4.3	5.7	3.2	6.7	5.6	18.6	5.5	5.5	8.9
Total capital expenditures.....	264.7	225.0	239.4	316.6	289.2	279.8	579.7	232.4	195.0	156.5
Investments and long-term receivables.....	10.7	37.7	15.5	60.5	46.1	(4.6)	47.6	34.5	34.9	76.7
Reduction in long-term debt.....	58.1	144.7	109.5	78.8	186.8	106.4	185.8	4.5	.6	30.4
Cash dividends.....	97.6	96.8	96.3	96.2	92.7	81.1	73.5	68.6	67.8	68.9
Increase (decrease) in working capital.....	62.4	169.7	(89.9)	11.8	38.3	170.6	(122.3)	22.8	5.5	37.6
Other.....	2.2	1.1	13.3	15.4	13.9	4.4	16.1	4.4	2.6	1.8
	495.7	675.0	384.1	579.3	667.0	637.7	780.4	367.2	306.4	371.9

*Adjusted for two-for-one stock split in 1969.

Note—Financial data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption in 1971 of equity accounting for investments.

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
REVENUES FROM CHEMICALS, FIBERS, AND FABRICATED PRODUCTS										
Plastic resins.....	\$ 62.4	51.5	51.2	50.0	41.8	33.0	30.5	24.3	18.7	26.6
Rubber chemicals.....	91.7	83.7	72.1	69.6	70.2	59.4	62.6	58.8	58.8	57.9
Fertilizers.....	100.6	90.9	71.8	69.3	67.5	74.1	82.6	59.7	50.2	43.0
Special products.....	131.7	112.1	130.5	129.2	113.3	94.1	84.0	78.2	67.0	58.2
Synthetic fibers.....	103.2	70.2	57.6	59.3	50.1	31.8	7.0	—	—	—
Fabricated products.....	100.0	86.6	94.0	95.3	103.7	105.8	90.5	85.7	76.5	81.7
	<u>589.6</u>	<u>495.0</u>	<u>477.2</u>	<u>472.7</u>	<u>446.6</u>	<u>398.2</u>	<u>357.2</u>	<u>306.7</u>	<u>271.2</u>	<u>267.4</u>

OTHER DATA

Shares outstanding at year end—thousands*	75,387	74,741	74,062	74,041	73,776	69,717	67,118	66,739	66,929	68,551
Number of stockholders at year end.....	153,292	166,012	172,979	157,052	145,665	139,670	139,224	137,739	137,589	130,324
Total payroll including employee benefits.....	\$ 387.3	352.8	335.0	326.8	328.9	312.3	281.8	248.9	237.6	233.9
Number of employees at year end.....	35,265	33,280	32,208	32,660	35,359	35,724	34,667	29,873	28,298	27,816

*Adjusted for two-for-one stock split in 1969.

TEN-YEAR OPERATING REVIEW

NET PRODUCTION OF LIQUID RAW

MATERIALS—thousands of barrels daily

Crude Oil

United States

Texas.....	57.7	54.9	54.6	51.8	53.7	54.4	52.8	51.5	52.6	54.4
Louisiana.....	23.3	24.8	29.6	28.1	29.3	28.3	24.9	18.7	14.7	12.4
Oklahoma.....	17.5	15.6	15.5	16.2	17.7	20.0	22.4	23.7	23.9	23.3
New Mexico.....	9.0	9.8	10.4	10.3	10.3	10.1	10.3	9.2	8.8	7.8
Alaska.....	4.5	5.5	5.6	6.9	8.9	3.9	.2	—	—	—
Utah.....	3.8	3.0	3.3	3.4	4.0	3.1	1.8	1.5	1.9	3.3
Wyoming.....	2.7	3.7	6.3	6.2	3.6	3.3	2.6	2.3	2.2	2.3
Other states.....	11.7	12.8	13.6	14.7	12.4	11.7	12.9	13.4	14.0	14.6
	<u>130.2</u>	<u>130.1</u>	<u>138.9</u>	<u>137.6</u>	<u>139.9</u>	<u>134.8</u>	<u>127.9</u>	<u>120.3</u>	<u>118.1</u>	<u>118.1</u>

Outside United States

Canada.....	14.0	13.1	12.2	10.4	9.7	9.0	8.3	7.9	8.0	7.7
Latin America.....	20.2	20.2	21.3	22.0	26.4	34.0	36.1	34.8	30.6	33.7
Middle East.....	12.6	14.0	34.4	35.3	32.0	33.0	37.2	39.7	40.3	38.4
Africa.....	23.2	25.5	20.0	40.0	30.1	25.4	23.1	5.6	1.1	—
Europe.....	11.0	2.3	—	—	—	—	—	—	—	—
	<u>81.0</u>	<u>75.1</u>	<u>87.9</u>	<u>107.7</u>	<u>98.2</u>	<u>101.4</u>	<u>104.7</u>	<u>88.0</u>	<u>80.0</u>	<u>79.8</u>
Total crude oil.....	<u>211.2</u>	<u>205.2</u>	<u>226.8</u>	<u>245.3</u>	<u>238.1</u>	<u>236.2</u>	<u>232.6</u>	<u>208.3</u>	<u>198.1</u>	<u>197.9</u>

Natural Gas Liquids

United States.....	137.4	135.4	131.8	130.3	138.7	132.1	125.2	121.4	114.2	112.0
Canada.....	11.8	12.8	12.9	11.2	8.9	8.9	8.4	8.0	3.9	.3
Latin America.....	2.4	2.6	2.2	1.1	1.2	1.2	1.2	1.4	1.4	1.5
Europe.....	.3	.2	.2	—	—	—	—	—	—	—
Total natural gas liquids.....	<u>151.9</u>	<u>151.0</u>	<u>147.1</u>	<u>142.6</u>	<u>148.8</u>	<u>142.2</u>	<u>134.8</u>	<u>130.8</u>	<u>119.5</u>	<u>113.8</u>
Total all liquids.....	<u>363.1</u>	<u>356.2</u>	<u>373.9</u>	<u>387.9</u>	<u>386.9</u>	<u>378.4</u>	<u>367.4</u>	<u>339.1</u>	<u>317.6</u>	<u>311.7</u>

Note—Operating data for 1967 through 1972 include operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more. Data prior to 1967 include the Company's interest in such companies owned one-third or more.

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
NET NATURAL GAS PRODUCTION— millions of cubic feet daily										
United States.....	1,534	1,566	1,591	1,436	1,429	1,460	1,397	1,330	1,336	1,329
Canada.....	200	179	179	155	127	116	96	87	79	69
Latin America.....	34	41	48	33	—	—	—	—	—	—
Europe.....	85	58	40	14	4	4	5	—	—	—
	<u>1,853</u>	<u>1,844</u>	<u>1,858</u>	<u>1,638</u>	<u>1,560</u>	<u>1,580</u>	<u>1,498</u>	<u>1,417</u>	<u>1,415</u>	<u>1,398</u>
WELL COMPLETIONS—Net										
United States—Exploratory.....	37	21	25	24	24	17	14	40	41	49
—Development.....	86	70	67	118	98	80	116	202	261	252
Outside United States—Exploratory.....	37	30	30	26	32	20	30	22	18	20
—Development.....	39	39	14	19	27	28	63	51	32	28
	<u>199</u>	<u>160</u>	<u>136</u>	<u>187</u>	<u>181</u>	<u>145</u>	<u>223</u>	<u>315</u>	<u>352</u>	<u>349</u>
OIL AND GAS WELLS—Net										
United States—Oil.....	5,795	6,004	6,316	6,457	6,387	6,590	6,808	6,873	6,879	6,790
—Gas and condensate.....	1,945	1,936	1,964	1,997	1,961	1,953	1,946	1,921	1,882	1,821
Outside United States—All wells.....	815	850	829	974	955	1,061	1,033	837	838	823
	<u>8,555</u>	<u>8,790</u>	<u>9,109</u>	<u>9,428</u>	<u>9,303</u>	<u>9,604</u>	<u>9,787</u>	<u>9,631</u>	<u>9,599</u>	<u>9,434</u>
NET OIL AND GAS ACREAGE—thousands of acres										
United States.....	5,793	5,382	5,275	4,728	4,618	4,333	4,666	4,995	5,030	5,050
Canada.....	6,967	6,507	6,273	5,862	4,600	3,563	3,476	2,808	2,349	2,150
Latin America.....	3,311	696	3,186	4,895	5,008	1,910	2,259	1,934	1,502	1,908
Europe.....	1,267	1,227	1,424	1,394	1,375	1,238	1,234	1,231	355	1,510
Africa.....	13,816	8,403	9,009	13,860	16,999	18,398	20,739	18,797	18,109	19,314
Middle East.....	2,893	13,852	13,852	12,762	12,787	2,102	638	638	311	311
Southeast Asia.....	31,018	38,852	47,106	57,627	40,000	—	—	—	—	—
Australia.....	5,969	6,272	7,290	9,290	10,833	16,978	26,690	24,383	19,164	22,600
	<u>71,034</u>	<u>81,191</u>	<u>93,415</u>	<u>110,418</u>	<u>96,220</u>	<u>48,522</u>	<u>59,702</u>	<u>54,786</u>	<u>46,820</u>	<u>52,843</u>
REFINERY RUNS—thousands of barrels daily										
United States—Crude oil.....	386	371	364	359	356	335	292	249	248	241
—Natural gas liquids.....	159	157	162	158	159	162	159	156	156	148
Outside United States—All liquids.....	64	77	93	88	87	68	58	38	32	30
	<u>609</u>	<u>605</u>	<u>619</u>	<u>605</u>	<u>602</u>	<u>565</u>	<u>509</u>	<u>443</u>	<u>436</u>	<u>419</u>
REFINERY CAPACITY—thousands of barrels daily										
United States—Crude oil.....	404	398	398	390	390	410	410	289	289	289
—Natural gas liquids.....	165	165	165	165	165	165	165	160	160	160
Outside United States—All liquids.....	81	100	100	148	147	97	119	56	46	44
	<u>650</u>	<u>663</u>	<u>663</u>	<u>703</u>	<u>702</u>	<u>672</u>	<u>694</u>	<u>505</u>	<u>495</u>	<u>493</u>
PETROLEUM PRODUCTS SOLD—thousands of barrels daily										
United States										
Automotive gasoline.....	323	311	314	294	279	252	222	188	183	175
Aviation fuels.....	27	27	35	38	36	36	25	21	25	29
Distillates—including kerosene.....	101	98	106	109	120	111	97	92	88	92
Liquefied petroleum gases.....	111	106	114	107	106	124	135	126	120	122
Other products.....	43	41	47	48	44	43	38	30	31	26
	<u>605</u>	<u>583</u>	<u>616</u>	<u>596</u>	<u>585</u>	<u>566</u>	<u>517</u>	<u>457</u>	<u>447</u>	<u>444</u>
Outside United States.....	128	141	131	132	114	83	65	41	37	27
Total.....	<u>733</u>	<u>724</u>	<u>747</u>	<u>728</u>	<u>699</u>	<u>649</u>	<u>582</u>	<u>498</u>	<u>484</u>	<u>471</u>
MARKETING OUTLETS	23,890	24,562	25,536	25,914	26,155	26,513	27,240	23,677	23,520	23,662

Note—Operating data for 1967 through 1972 include operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more. Data prior to 1967 include the Company's interest in such companies owned one-third or more.

PRODUCTS AND SERVICES

Sold by Phillips Petroleum Company and Its Subsidiaries

PRODUCTS

Automotive gasolines

Diesel fuel

Aviation fuels—gasolines, commercial and military jet fuels, anti-icing additive

Stove oil No. 1 (Range oil)

Furnace oil No. 2

Liquefied petroleum gases—motor fuel (propane, butane, butane-propane mixtures), commercial propane, butane, butane-propane mixtures, normal and isobutane

Kerosene

Crude oil

Natural gas

Liquefied natural gas

Lubricants—automotive, industrial, farm and ranch, marine, and fleet lubricants; aviation and snowmobile oils

Tires and Tubes—passenger car, truck, trailer

Batteries—automobile, truck and bus, farm, marine, small vehicles

Automotive accessories—anti-freeze, auto lamps, spark plugs, wiper blades, filters, belts

Fertilizers:

Anhydrous ammonia

Aqua ammonia

Ammonium nitrate

Ammonium sulfate

Urea

Urea-ammonium nitrate solution

Nitrogen solutions

Ammonium phosphates

Di-ammonium phosphate

Triple super phosphate

Phosphoric acid

Super phosphoric acid

Muriate of potash

Mixed liquid fertilizer solutions

Nitric acid

Feed ingredients—urea feed compounds, urea liquor, ammonium polyphosphate

Blasting materials—industrial ammonium nitrate, blasting agents, class A explosive, packaged slurries

Asphalt

Helium—high-purity gas and liquid, and cryogenic hardware

Rubber chemicals:

Butadiene and butylenes

Carbon black

Synthetic rubbers

Extender oils

Mercaptans

Construction materials:

Pond lining fabric

Pavement reinforcing fabric

Synthetic rubber emulsions

Plastic resins:

Polyethylenes

Polypropylenes

Polyvinylchloride

Polystyrene

Polyphenylene sulfide

Butadiene-styrene copolymers

Rigid packaging with plastics—for food and industrial markets; plastic coated-board milk cartons, large containers, and food containers; plastic food and tray food containers; custom packages

Rigid packaging machinery

Polypropylene packaging material—decorative and functional

Vinyl sheet and film

Plastic tubular goods—plastic pipe and fittings, conduit and duct, corrugated conduit

Custom fabricated plastic products—for the automotive, appliance, radio and TV industries

Other plastic products:

Plastic bottles

Horticulture ware

Bakery handling equipment

Plastic egg flats

Fifth wheel liner

Guy wire guard

Coating or laminating plastics and other materials—to paper, foil and other substrates for the paper, packaging, automotive, food, locker, and specialty fields

Release paper

Special chemicals:

Aliphatic solvents such as pentanes,

hexanes, heptanes

Benzene

Binder for solid rocket fuels

Biphenyl

Butene-1

Butene-2

Calcium petroleum sulfonate

Cyclohexane

Ethylene

High-purity hydrocarbons for research and development (available in several grades of purity)—aromatics, cycloolefins, cycloparaffins, diolefins, olefins, paraffins
Hydrocarbon aerosol propellants
Methylvinylpyridine
Mixed xylenes
Odorless solvents
Orthoxylene
Paraffinic naphtha
Paraxylene
Petro-sulfur compounds

Odorants for natural gas and LP-gas
Mercaptan intermediates (for agricultural chemicals and other uses) such as ethyl, n-propyl, n-butyl and n-dodecyl mercaptans, and ethylthioethanol
Sulfolane
2-Mercaptoethanol

Polymerization solvents

Propylene

Reference fuels

Rodent repellents

Tarnish preventative

Special fuels

Sulfur

Toluene

Wax

Tubing and metal products:

Stainless steel and nickel alloy tubing

for aerospace and other industries

Custom fabricated parts for automotive,

refrigeration, and other industries

Patio and porch furniture

Synthetic fibers:

Olefin

Polyester

Nylon

Carpet backing

Drilling mud and cement additives

SERVICES

Process analysis and control systems:

Advanced process analytical instrumentation and computer control systems; plant optimization, hybrid simulation, consulting, and maintenance services

Tanker hauling

Terminaling services

Engineering services

Liquefied natural gas technological services

PHILLIPS PETROLEUM COMPANY IN BRIEF

Founded in 1917 as a producer of crude oil and natural gasoline, Phillips Petroleum Company has grown into a major enterprise engaged in every phase of the petroleum industry and in many petrochemical activities. With total assets of \$3,269,600,000 the Company ranks ninth in size among United States oil companies. It has 35,265 employees and 153,292 registered stockholders.

Phillips 66 petroleum products are sold coast-to-coast through 23,600 outlets. The Company is a leading U. S. producer-marketer of liquefied petroleum gases. It has refining interests in five countries.

In the chemical industry, Phillips is a leading manufacturer of nitrogen fertilizers, synthetic rubber, carbon black, polyolefin plastics, and cyclohexane which is used for manufacture of nylon. It also manufactures and sells synthetic fibers, fabricated plastic products, and packaging. It has interests in chemical manufacturing and fabricating ventures in 17 countries.

Phillips is an industry leader in producing natural gas liquids. The Company has active exploration interests in 20 countries on six continents and interests in oil and gas reserves in eight countries. Its oil and gas reserves outside the United States have increased substantially in recent years. Besides the United States, the Company produces crude oil in Venezuela, Norwegian North Sea, Nigeria, Egypt, and Iran; and natural gas in Venezuela and the United Kingdom portion of the North Sea. Significant crude oil reserves have been discovered on the Alaskan North Slope. Through its 49% interest in Pacific Petroleum Ltd., Phillips participates in oil and gas exploration and production as well as in manufacture and sale of petroleum products in Canada.

The Phillips research organization has developed many new and improved products, processes, and methods. Currently, Phillips ranks second among all U. S. oil companies in number of U. S. patents held. Its process and product know-how is licensed in 29 countries.

PRINCIPAL SUBSIDIARIES AND AFFILIATES

include the following:

FIBERS INTERNATIONAL CORPORATION

PACIFIC PETROLEUMS LTD.

PETROCHIM

PHILLIPS FIBERS CORPORATION

PHILLIPS PETROLEUM COMPANY EUROPE-AFRICA

PHILLIPS PIPE LINE COMPANY

PHILLIPS PUERTO RICO CORE INC.

PHILTANKERS INC.

OFFICES

PRINCIPAL OFFICES

Bartlesville, Oklahoma 74004

80 Broadway, New York, New York 10005

306 South State Street, Dover, Delaware 19901

STOCK TRANSFER OFFICES

Phillips Petroleum Company

80 Broadway, New York, New York 10005

Phillips Petroleum Company

15 Exchange Place

Jersey City, New Jersey 07302

Montreal Trust Company

15 King Street West

Toronto 1, Ontario, Canada

REGISTRARS

Manufacturers Hanover Trust Company

40 Wall Street

New York, New York 10005

Canada Permanent Trust Company

1901 Yonge Street

Toronto 7, Ontario, Canada

ANNUAL STOCKHOLDERS MEETING

The 1973 Annual Meeting of Stockholders will be held Tuesday, April 24, at 10 a.m., in the Adams Building at the Company's Bartlesville, Oklahoma, headquarters. Proxies for this meeting will be requested when the official Notice, Proxy Statement, and Proxy form are mailed to stockholders about March 26, 1973.

DIRECTORS

Harry D. Brookby,* Senior Vice President

Clark M. Clifford, senior partner in law firm of Clifford, Warnke, Glass, McIlwain & Finney, Washington, D. C.

Wm. C. Douce,* Executive Vice President and Chairman of the Executive Committee

John M. Houchin,* Deputy Chairman of the Board of Directors and deputy chief executive officer during 1972; will become Chairman of the Board of Directors April 1, 1973.**

W. W. Keeler,* Chairman of the Board of Directors; also chief executive officer during 1972.**

C. M. Kittrell,* Senior Vice President

W. F. Martin,* President during 1972; became President and chief executive officer January 1, 1973.**

Lloyd G. Minter,* Vice President and General Counsel

William Piel, Jr., partner in law firm of Sullivan & Cromwell, New York, New York

W. A. Roberts,* Executive Vice President

Robert N. Sears, Vice President and Assistant Secretary

William I. Spencer, President of First National City Bank and of First National City Corporation, a financial institution, New York, New York

W. Clarke Wescoe, Vice Chairman and Executive Vice President of Sterling Drug Inc., New York, New York

*Member Executive Committee

**Anticipating his normal retirement as an employee April 1, 1973, Mr. Keeler resigned as Chairman of the Board of Directors effective that date and as chief executive officer effective January 1, 1973. Mr. Keeler will remain a member of the Board.

OFFICERS

W. W. Keeler, Chairman of the Board of Directors; also chief executive officer during 1972.**

John M. Houchin, Deputy Chairman of the Board of Directors and deputy chief executive officer during 1972; will become Chairman of the Board of Directors April 1, 1973.**

W. F. Martin, President during 1972; became President and chief executive officer January 1, 1973.**

Wm. C. Douce, Executive Vice President and Chairman of the Executive Committee

W. A. Roberts, Executive Vice President

C. M. Kittrell, Senior Vice President

Harry D. Brookby, Senior Vice President and Chairman of the Operating and Planning and Budget Committees

Lloyd G. Minter, Vice President and General Counsel

Robert N. Sears, Vice President and Assistant Secretary

O. W. Armstrong, Vice President and Treasurer

P. M. Arnold, Vice President Research and Development

Geo. F. L. Bishop, Vice President Refining

Sloan K. Childers, Vice President Public Affairs

LeRoy Culbertson, Vice President Gas and Gas Liquids

John E. Harris, Jr., Vice President Supply and Distribution

L. H. Johnstone, Vice President Chemical

G. J. Morrison, Vice President Marketing

Carstens Slack, Vice President Washington Office

Jack Turner, Vice President Exploration and Production

W. R. Thomas, Vice President Employee Relations

H. D. Trotter, Vice President Engineering

Edwin Van den Bark, Vice President International

Harvey W. Thompson, Secretary

H. B. Stead, Comptroller

Kenneth Heady, Associate General Counsel

W. G. Angel, Secretary of the Executive Committee

Glenn A. Cox, Senior Assistant Treasurer

J. L. Adams, Assistant Treasurer

R. E. Bonnell, Assistant Treasurer

M. E. Kissell, Assistant Treasurer

E. J. Brown, Assistant Secretary

Joe W. Zeman, Assistant Secretary

J. R. Akright, Assistant Comptroller

T. C. Heritage, Assistant Comptroller

H. D. Powell, Assistant Comptroller

J. H. Simmons, Assistant Comptroller

OTHER EXECUTIVES

M. L. Collins, Manager Tax, Insurance, and Claims

Kieffer Davis, M.D., Medical Director

J. W. Davison, Vice Chairman of the Operating Committee

M. R. Hayes, Manager General Services

D. R. Hynes, Manager Purchasing

Myron O. Johnson, Manager Computing

W. R. Lusbey, Manager Aviation

W. L. Phillips, Manager International



PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004

